

DONIPHAN COUNTY, KANSAS LIBRARY
DISTRICT NO. 1
TROY, KANSAS

FINANCIAL STATEMENT
WITH INDEPENDENT AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2014

DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS

For the Year Ended December 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statement:	
Summary Statement of Receipts, Expenditures and Unencumbered Cash - Regulatory Basis	3
Notes to the Financial Statement	4 - 7
Regulatory Required Supplemental Information:	
Schedule 1:	
Summary of Expenditures - Actual and Budget - Regulatory Basis	8
Schedules 2A:	
Schedule of Receipts and Expenditures - Actual and Budget - Regulatory Basis	
General Fund	9
Employee Benefits Fund	10
Capital Improvement Fund	11
Schedule 2B:	
Schedule of Receipts and Expenditures - Regulatory Basis	
Euler Bequest Fund	12

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In my opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of Doniphan County, Kansas Library District No. 1, as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended, in accordance with the financial reporting provisions of the State of Kansas and the *Kansas Municipal Audit and Accounting Guide* as described in Note 1.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures – actual and budget, and individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents), are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Prior Year Comparative Numbers

The prior year actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget, is also presented for comparative analysis and is not a required part of the 2013 financial statement upon which I rendered an unqualified opinion dated September 8, 2015. The 2013 financial statement and my accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>.

Such prior year comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The prior year comparative information was subject to the auditing procedures applied in the audit of the 2013 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 basic financial statement or to the 2013 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion the prior year comparative information is fairly stated in all material respects in relation to the 2013 basic financial statement as a whole, on the basis of accounting described in Note 1.



Patsy A. Porter, CPA, PA

September 9, 2015

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
REGULATORY BASIS**

For the Year Ended December 31, 2014

<u>FUNDS</u>	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental type funds:							
General fund	\$ 31,103	-	\$ 371,680	\$ 369,077	\$ 33,706	\$ -	\$ 33,706
Special purpose funds:							
Employee benefits	6,829	-	25,183	23,908	8,104	-	8,104
Capital improvement	206,636	-	17,715	9,177	215,174	-	215,174
Trust fund:							
Euler bequest	156,842	-	3,388	150,594	9,636	-	9,636
Total reporting entity	\$ 401,410	\$ -	\$ 417,966	\$ 552,756	\$ 266,620	\$ -	\$ 266,620
Composition of cash:							
Checking accounts							\$ 66,376
Certificates of deposit							129,838
Savings accounts							70,406
Total cash							\$ 266,620

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

NOTES TO THE FINANCIAL STATEMENT

1 - Summary of Significant Accounting Policies

(a) Reporting Entity

Doniphan County, Kansas Library District No. 1 (the District) is a municipality organized under K.S.A. 12-1236 and governed by an elected seven-member board. The financial statement presents the District. The District has branches in Troy, Highland, Elwood and Wathena, Kansas.

(b) Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the year 2014:

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special purpose funds - used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital project and tax levies for long-term debt) that are intended for specified purposes.

Trust fund – funds used to report assets held in trust for the benefit of the District (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the District, scholarship funds, etc.).

(c) Basis of Accounting

Regulatory basis of accounting and departure from accounting principles generally accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

NOTES TO THE FINANCIAL STATEMENT

1 - Summary of Significant Accounting Policies (Continued)

(d) Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory, rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds or trust funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing board.

(d) Risk retention

The District handles risk of loss through the purchase of commercial insurance. Insurance coverage has not been reduced from the prior year. Insurance settlements have not exceeded insurance coverage.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

NOTES TO THE FINANCIAL STATEMENT

2 - Compensated absences

As described in Note 1, this financial statement is prepared in compliance with the regulatory basis of accounting, and therefore there is no presentation for vested or accumulated compensated absences.

Full-time employees earn paid time off after ninety days of service (pro-rated for part-time employees). Paid time off does not accumulate. However, if an employee leaves during the year, they are entitled to be paid for any accrued paid time off. Employees have the option of designating forty-hours of paid time off, at the end of the year, to Extended Sick Leave (ESL) pot and are used for any extended time.

The District also offers a Perfect Attendance Incentive Policy of one-hour each month (pro-rated for part-time employees) to those with perfect attendance in each monthly pay period.

3 - Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. At December 31, 2014, the District's carrying amount of deposits, including certificates of deposit and time deposits, was \$266,620 and the bank balance was \$285,891. The bank balance was held by four banks resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no such investments as of December 31, 2014.

4 - Retirement Plan

Plan description. The District maintains a SIMPLE plan that all full-time employees are eligible to participate in. The District matches employee contributions to the plan up to a maximum of 3%. The District's contributions were \$3,321 and \$3,037 for December 31, 2014 and 2013.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

NOTES TO THE FINANCIAL STATEMENT

5 - Property Taxes

The District's ad valorem property tax is levied each year on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

The tax rate assessed for the year ended December 31, 2014 to finance the general fund was \$4.122 per \$1,000 valuation and the employee benefits fund was \$0.298 per \$1,000 valuation.

Taxes are due on December 20 and May 10.

6 - Other Long-Term Obligations from Operations

Other Post Employment Benefits. As provided by K.S.A. 12-5040, the municipality allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the municipality is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the municipality makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

7 - Community Development Block Grant

The City of Troy, Kansas (the City) applied for and received a Community Development Block Grant from the State of Kansas to repair, remodel and improve the Library's facility in Troy, Kansas. All receipts and expenditures related to this grant are reported by the City.

The grant requires a 40% cost savings through a combination of volunteer labor, equipment, materials, etc. If this commitment is not met, then the grantee (the City) must pay the State of Kansas the amount of the shortfall within 30 days of project completion. The Library executed an agreement to fully indemnify the City any liability that may be incurred as a result of this requirement. Further the Library agreed to pay any resulting liability to the City within 15 days of any demand.

8 - Euler Bequest Fund Purchase of Investment

The Board invested \$150,294 in an investment account. At December 31, 2014, the investment fund had a fair value of \$153,572 and consisted of preferred stock and corporate/government bonds.

9 - Subsequent Events

Management has evaluated subsequent events through September 9, 2015, the date the financial statements were available to be issued.

REGULATORY REQUIRED SUPPLEMENTAL INFORMATION

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS**

For the Year Ended December 31, 2014

<u>FUNDS</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance (Over) Under</u>
Governmental type funds:			
General fund	\$ 388,794	\$ 369,077	\$ 19,717
Special purpose funds:			
Employee benefits fund	27,611	23,908	3,703
Capital improvements fund	307,500	9,177	298,323

See independent auditor's report.

DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended December 31, 2014

(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts:				
Ad valorem tax	\$ 291,063	\$ 292,899	\$ 302,239	\$ (9,340)
Ad valorem delinquent tax	5,372	5,889	-	5,889
Motor vehicle tax	26,391	26,330	26,899	(569)
Recreational vehicle tax	560	525	614	(89)
16/20 M vehicle tax	5,949	5,595	4,561	1,034
Rent in lieu of taxes	-	2	-	2
Donations and grants	8,024	18,275	200	18,075
NEKLS grant	708	730	-	730
State aid	2,839	2,884	2,810	74
Interest on idle funds	918	391	1,000	(609)
E-rate refund	3,402	3,435	-	3,435
Miscellaneous	3,154	13,133	-	13,133
Refunds	942	1,592	-	1,592
Total receipts	349,322	371,680	\$ 338,323	\$ 33,357
Expenditures:				
Books and materials	27,269	26,796	\$ 26,000	\$ 796
Capital improvements	11,434	26,474	10,000	16,474
Commodities	14,076	14,226	14,000	226
Contractual services	52,248	60,087	59,750	337
Personal services	195,713	197,152	228,000	(30,848)
Technology	15,103	25,007	21,300	3,707
Transfer to capital improvement fund	6,000	-	10,000	(10,000)
Revitalization rebates	12,350	19,335	19,744	(409)
Total expenditures	334,193	369,077	\$ 388,794	\$ (19,717)
Receipts over (under) expenditures	15,129	2,603		
Unencumbered cash, beginning	15,974	31,103		
Prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 31,103	\$ 33,706		

See independent auditor's report.

DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS

EMPLOYEE BENEFITS FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended December 31, 2014

(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts:				
Ad valorem tax	\$ 20,018	\$ 22,693	\$ 23,389	\$ (696)
Ad valorem delinquent tax	317	360	-	360
Motor vehicle tax	939	1,766	1,813	(47)
Recreational vehicle tax	32	35	41	(6)
16/20 M vehicle tax	568	329	307	22
Rent in lieu of taxes	-	-	-	-
Total receipts	21,874	25,183	\$ 25,550	\$ (367)
Expenditures:				
Personal services	946	3,610	\$ -	\$ 3,610
Unemployment	57	113	2,280	(2,167)
Workers compensation	552	-	1,500	(1,500)
Social Security and Medicare	13,945	15,366	16,000	(634)
Retirement	3,037	3,321	6,500	(3,179)
Revitalization rebates	834	1,498	1,331	167
Total expenditures	19,371	23,908	\$ 27,611	\$ (3,703)
Receipts over (under) expenditures	2,503	1,275		
Unencumbered cash, beginning	4,326	6,829		
Prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 6,829	\$ 8,104		

See independent auditor's report.

DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS

CAPITAL IMPROVEMENT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended December 31, 2014
(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

		Current Year		Variance
	Prior Year	Actual	Budget	Over
	Actual			(Under)
Receipts:				
Transfer from general fund	\$ 36,000	\$ -	\$ 10,000	\$ (10,000)
Donations	11,669	6,260	300,000	(293,740)
Reimbursements	-	11,190	-	11,190
Interest on idle funds	901	265	-	265
Total receipts	48,570	17,715	\$ 310,000	\$ (292,285)
Expenditures:				
Reconstruction, repair and remodeling	16,510	9,177	\$ 307,500	\$ (298,323)
Miscellaneous	-	-	-	-
Total expenditures	16,510	9,177	\$ 307,500	\$ (298,323)
Receipts over (under) expenditures	32,060	8,538		
Unencumbered cash, beginning	174,576	206,636		
Prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 206,636	\$ 215,174		

See independent auditor's report.

DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1
TROY, KANSAS

EULER BEQUEST FUND

STATEMENTS OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS

For the Year Ended December 31, 2014
(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

	Prior Year	Actual
Receipts:		
Donations	\$ 20,240	\$ -
Dividends and interest	-	3,388
	<hr/>	<hr/>
Total receipts	20,240	3,388
	<hr/>	<hr/>
Expenditures:		
Capital outlay	7,126	300
Commodities	70	-
Contractual services	-	-
Purchase of investment account	-	150,294
Technology	1,017	-
Transfer to capital improvement fund	30,000	-
	<hr/>	<hr/>
Total expenditures	38,213	150,594
	<hr/>	<hr/>
Receipts over (under) expenditures	(17,973)	(147,206)
Unencumbered cash, beginning	174,815	156,842
Prior year canceled encumbrances	<hr/> -	<hr/> -
Unencumbered cash, ending	<hr/> \$ 156,842	<hr/> \$ 9,636

See independent auditor's report.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Doniphan County, Kansas Library District No. 1

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Doniphan County, Kansas Library District No. 1 (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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To the Board of Trustees of
Doniphan County, Kansas Library District No. 1

In planning and performing my audit of the regulatory basis financial statement of Doniphan County, Kansas Library District No. 1 (the entity) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*, I considered the entity's internal control over financial reporting (internal control) as a basis for designing my audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. I consider the following deficiencies in internal control to be material weaknesses.

Monthly Financial Reporting

Close QuickBooks Each Month after Financial Reporting is Finalized

QuickBooks does not recognize any particular accounting period and as such allows changes to be made to periods for which financial reporting has already been finalized. In order to avoid changes, the Treasurer should perform the accounting period close procedure each month. This would be done after the financial reports have been prepared and reconciled and after the bank reconciliation reports have been reviewed and approved.

This procedure is performed in the "preferences" function in QuickBooks edit menu. Open the accounting preferences tab, select the company preferences, and enter the date and password in the closing date. Only the Treasurer should know the password. Any changes made to the previous accounting periods need to be approved by the Treasurer.

Determine Fund Balances Each Month

The Library District operates with three main funds: General, Employee Benefits & Capital Improvement. In order to make sound business decisions regarding spending, the board must be able to know the cash balance in each fund at any given time.

Currently, some items are classified by fund in QuickBooks, while others are not. I recommend that each receipt and expenditure be appropriately classified upon entry. Best practice would say that when the invoice or deposit is coded (office supplies, etc.) it should also be noted to which fund it belongs.

Review of Monthly Reports

The monthly financial reports generated from QuickBooks should be reviewed and approved by the board. At least one member of the board should have a basic knowledge of account balances in order to determine if an account appears to be incorrect.

During the audit of payroll, I noted that the payroll liability accounts in QuickBooks showed large credit balances, meaning payroll tax payments had not been posted to relieve the liability. Upon further investigation, I found that the payroll tax payments were posted to the expense account. Becky has gone back and posted those payments to relieve the liability accounts and will continue this practice in the future.

I recommend that the financial documents be approved by the board each month by initialing the presented report (including bank statements and reconciliation reports).

I also noted the following matters that represent opportunities for strengthening internal controls.

Clarify Paid Time Off and Extended Sick Leave Policies

Employee policies should be clear and concise so as not to leave any questions unanswered. The aforementioned policies do not address whether time off earned is to be paid upon separation of employment. It is also unclear whether unused ESL hours can carryover to future years. This could cause unnecessary strife in the event of an employees' departure. I recommend clarifying the policy to state the needed information.

Clarify Purpose of All Purchases

During the audit of expenditures, I noted that the purpose of purchases was not always clear on the invoice. I recommend that each invoice note the purpose of the purchase, if not already clear from the invoice.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Patsy A. Porter, CPA, PA

Patsy A. Porter, CPA, PA
Atchison, Kansas

September 9, 2015